

LEAGUE OF CALIFORNIA CITIES



March 27, 2024

The Honorable Lola Smallwood-Cuevas
Chair, Senate Committee on Labor,
Public Employment and Retirement
1021 O Street, Suite 6740
Sacramento, CA 95814

RE: Senate Bill 1116 (Portantino) Unemployment Insurance: Trade Disputes: Eligibility for Benefits. – OPPOSE (As Introduced February 13, 2024)

Dear Senator Smallwood-Cuevas,

The undersigned organizations respectfully oppose Senate Bill 1116, which would provide employees who remain on strike for more than two weeks with Unemployment Insurance (UI) benefits, thus requiring employers (via UI) to fund ongoing labor disputes. Local government and school revenues are incredibly restrictive and funding sources are limited; as cost pressures continue to increase for local governments and schools, it is critical that we have a fiscally solvent UI system in order for local agencies to continue to provide services to the public and provide competitive benefits to our active and retired employees.

Under existing law, UI payments are intended to assist employees who, through no fault of their own, are forced to leave their employment. Participating local agencies fund these payments via an Unemployment Insurance Reserve Account (UI Account) with the Employment Development Department (EDD). SB 1116 makes a significant change to this approach by providing unemployment to workers who are currently employed, and not seeking other employment, but have chosen as a labor negotiating tactic to go on strike. In the event of a strike that lasts over two weeks, SB 1116 would allow all striking workers to claim UI benefits for up to 26 weeks. In this situation, a local government agency would experience simultaneous claims that would significantly increase UI costs. These costs would impact public employers, such as cities, counties, special districts, and joint powers authorities. It would also impact K-12 schools, as school districts directly pay a portion of employee wages to the State fund through the School Employee Fund, coordinated through their County Office of Education.

In addition to its considerable costs to employers, SB 1116 will likely further harm the already insolvent UI fund and threaten benefits to unemployed Californians in future recessions. California's UI Fund was exhausted during the COVID-19 pandemic, and is projected to have an outstanding balance of \$20.8 billion at the end of 2024, owed to the Federal government.¹ This is nearly double the amount of funds that California borrowed the last time California's UI funds were exhausted during the 2008 recession. Beginning in 2008, California accumulated more than \$10 billion in debt which was not repaid until 2018 – a decade later. This UI deficit had significant fiscal effects on employers and the general fund. California's UI insolvency resulted in significant federal tax increases ranging from the hundreds of millions to over \$2 billion per year between 2012-2018. With California's UI Fund becoming insolvent less than two years after repaying federal UI from the Great Recession, California cannot afford to further leverage and strain an already burdened system.

This measure follows an identical measure, SB 799 (Portantino, 2023), which was vetoed by Governor Gavin Newsom. The Governor's veto message stated in part: "[T]he state is responsible for the interest payments on the federal UI loan and to date has paid \$362.7 million in interest with another \$302 million due this month. Now is not the time to increase costs or incur this sizable debt." The State Department of Finance has also stated that a prior unsuccessful predecessor to this bill, Assembly Bill 1066 (Gonzalez, Lorena, 2019), would have resulted in, "... Increased cost pressures on the UI Fund, exacerbating the condition of the Fund and hindering the ability to build a reserve to respond to variations in the economy." With the State already grappling with a multi-billion dollar budget deficit that will negatively impact local agencies, it would be counter-productive to simultaneously increase cost pressures on the State's UI fund.

It is also important to note that this measure will further erode good faith negotiations at the bargaining table for local government and schools employers. Local governments and schools work hard to engage in good faith bargaining. If SB 1116 were to become law, we anticipate longer lengths of impasse, higher costs associated with protracted Public Employee Relations Board (PERB) proceedings and a decline in quality of public services. These impacts could be amplified by a pending measure concerning sympathy strikes (Assembly Bill 2404 (Lee)) and a recently-enacted measure allowing for collective bargaining for temporary employees (Assembly Bill 1484 (Zbur, 2023)).

For these reasons, we must respectfully oppose SB 1116. Please feel free to contact us if you have any questions.

Sincerely,



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¹ <https://edd.ca.gov/siteassets/files/unemployment/pdf/edduiforecastjan24.pdf>

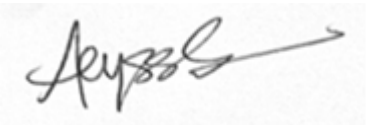
Senate Bill 1116 (Portantino)



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